

Metropolitan King County Council

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Cheryle A. Broom
King County Auditor

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MANAGEMENT LETTER

DATE: January 16, 2007

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Follow up on Performance Audit of Transit Capital Planning and Management

This memorandum provides the results of our follow-up review of our 2005 Performance Audit of the Department of Transportation Transit Division (Transit) Capital Planning and Management. Transit has partially implemented or begun implementing several of our recommendations to improve capital planning. We recommend that Transit set schedules for completing their implementation. We also recommend that Transit reorient its peer review report in order to identify areas of performance for managerial action and legislative oversight.

Background

The objectives of the 2005 audit were to assess the extent to which the capital program is planned and carried out consistent with industry best practices. The audit also evaluated the usefulness and appropriateness of Transit's performance measures.

The audit concluded that Transit follows many best practices, but it is inconsistent in following best practices for identifying, quantifying, and analyzing the cost impacts of alternatives for major capital investments. In addition, Transit lacks a facility master plan, which would clarify facility needs and corresponding capital improvement program (CIP) priorities.

Recommendations included those intended to ensure that Transit makes economically sound decisions and provides meaningful information for managers and policy-makers. The audit also identified ways in which Transit could improve its use of performance measures to highlight areas where Transit performs well and identify areas of performance for further review by management.

The King County Executive concurred with all of the audit's recommendations, and Transit provided a schedule for their implementation. Below is a brief description of Transit's progress in implementing the recommendations.

Ongoing Implementation Efforts

Transit has begun or planned the implementation of the following recommendations. While two of the recommendations have clear schedules for completion, two others have indefinite implementation schedules.

Recommendation: Develop guidelines and models for conducting economic analysis of capital projects and consistently follow those guidelines.

Following the advice of our office, Transit suspended development of economic analysis guidelines until the auditor's office completed its review of the Wastewater Treatment Division guidelines. In October 2006, we issued a management letter on the subject, and Transit committed to adapting Wastewater Treatment Division's guidelines to their agency by June 2007.

Recommendation: Develop a facility master plan and designate a schedule for periodically updating the plan.

Originally planned for a fourth quarter 2006 completion, Transit has postponed work on a facility master plan until it finishes development of an operational master plan. Through a 2006 budget proviso, council required Transit to update its long-range policy framework in preparation for an operational master plan. An October 2006 council motion provides schedules for updating the operating and capital policy framework and developing a work plan and scope for an operational master plan. The work plan is expected to be transmitted in the third quarter of 2007, and the scope of the operational master plan is expected in the first quarter of 2008.

Recommendation: Consider using the state-mandated Asset Management Plan to document and communicate Transit's approach to asset management both internally and externally.

Originally planned for the second quarter of 2006, Transit has decided to develop a more comprehensive asset management guidebook that satisfies both state and federal requirements. During this year's federal triennial review, Transit discovered that the state's required plan is inadequate to address federal requirements for documentation of the asset management approach. Instead of updating the state-mandated plan, then, Transit intends to develop a more comprehensive guide. Transit has not set a schedule for developing the document.

Recommendation: Develop performance measures and targets that reflect the efficiency and effectiveness in meeting the goal of planning and constructing reliable, safe, and convenient transportation services.

Transit is participating in a multi-department working group to develop countywide CIP measures. These measures are being prepared for executive review in mid-December 2006. Transit is also working internally and with KingStat to develop Transit-specific CIP performance measures.

Follow-Up Recommendation 1:

Transit should identify new timelines for implementing:

- **A comprehensive asset management guidebook that satisfies both state and federal mandates.**
- **Capital planning performance measures.**

Partially Implemented Recommendation

Transit has partially implemented our recommendation for improving the way it tracks and communicates its performance in its business plan. Our original recommendation was:

Enhance collecting and reporting of performance measures by:

- *reducing the measures included in its business plan to those that are key indicators of performance.*
- *ensuring that strategic goals focus on outcomes, rather than processes.*
- *developing objectives that relate to the performance measures of revenue recovery and accurate forecasting.*
- *developing performance measures to track how efficiently and effectively goals of being an active regional partner and being an outstanding place to work are pursued.*

Transit has removed several duplicative performance measures from its business plan. Transit also removed performance measures that did not have corresponding objectives. However, Transit has not developed performance measures for two of its three goals.

Our audit provided several examples of viable performance measures for Goal 2: Be an active regional partner, including partnership milestones achieved, ridership on partnership routes, partner satisfaction, and others. Similarly, the audit suggested performance measures for Goal 3: Be an outstanding place to work, including turnover rate, staff days lost to injury, employee satisfaction, and others.

Transit's second goal (Be an active regional partner) has not changed. It is still process-oriented, rather than outcome-oriented. Our audit recommended focusing the goal on outcomes desired through partnerships, rather than the process of forming partnerships, which could be a strategy for achieving those outcomes. In other words, the goal would describe the *result* of Transit's regional partnerships, and measures would indicate the success to which the goal was attained.

Follow-Up Recommendation 2:

Transit should finish implementing previous audit recommendations for improving its business plan by:

- **Modifying Goal 2 to focus on an outcome, rather than a process.**
- **Developing performance measures to track and report progress in meeting Goals 2 and 3.**

Our audit offered recommendations for improving the efficiency measures that Transit uses in its peer review report. In its latest report, Transit addressed our recommendation by including new analyses and performance measures. However, we continue to have reservations about Transit's approach to peer review, which does not provide much useful information for council or management. For example, Transit recommended comparing relative percentage changes in costs, rather than comparing costs directly, to avoid issues involved in trying to adjust for differences in cost of living or wage rates across cities.

A major limitation of this approach is that by looking *only* at changes in costs, neither policy-makers nor Transit management can tell if Transit is more or less efficient than its peers. Using

the method preferred by Transit, an agency could have the highest costs among its peers, but nevertheless have the best ranking because it has experienced the most change from the previous year. Conversely, the most efficient transit agency could be ranked last merely because it is already highly efficient and therefore has less room for making improvements. In summary, without providing direct cost data, Transit's analysis could lead one to believe that the least efficient transit operation was actually the most efficient performer of the peer group.

According to the King County Executive's guidance on performance measurement, the value of a peer review is in comparing performance and determining the reasons for differences in performance. For example:

- If better performance is indicated in other jurisdictions or organization, why?
- Are there resource differences?
- Are different programs or strategies being pursued that might be appropriate in our jurisdiction?¹

We concur with the executive's guidance. Using only Transit's indirect method of comparing relative changes, without providing a direct comparison of costs and performance, does not address the reasons for peer review and performance measurement indicated above.

Follow-Up Recommendation 3:

Transit should redesign the peer review report in consultation with the county Performance Management Director to provide meaningful information about how its performance compares to its peers.

Executive Response

The County Executive concurred with our three follow-up recommendations and provided a schedule for their implementation.

Rob McGowan, Principal Management Auditor, and Bob Thomas, Senior Principal Management Auditor, conducted this follow-up review. Please contact Rob at 296-0368 or me at 296-1655 if you have any questions about the issues discussed in this letter.

Attachment: Executive Response

cc: Harold Taniguchi, Director, Department of Transportation
Kevin Desmond, General Manager, Transit Division
Jill Krecklow, Finance and Administrative Services Manager, Transit Division
Arthur Thornbury, Principal Legislative Analyst
Mike Alvine, Principal Legislative Analyst
Paul Carlson, Principal Legislative Analyst
Dave Lawson, Manager, Executive Audit Services

¹ KingStat Guidance Document. August 2006, p. 17.

**ATTACHMENT
EXECUTIVE RESPONSE**



King County

Ron Sims

King County Executive

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January 12, 2007

Cheryle A. Broom
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Room 1033
C O U R T H O U S E

Dear Ms. Broom:

Thank you for the opportunity to respond to your proposed final management letter – Follow-up to the 2005 Performance Audit of Transit Capital Planning and Management, dated December 21, 2006. My staff and I appreciate the collaborative and professional approach that continues to be taken by the audit staff. We look forward to the opportunity to work with the audit staff as we implement the follow-up recommendations. This letter and the enclosure responds to the findings and recommendations discussed in the proposed final report.

I generally agree with the findings and concur with the recommendations. I appreciate the auditor's acknowledgement that the Transit Division has made progress toward implementing the recommendations from the 2005 Transit Capital Planning and Management Performance Audit. Transit staff continue to work with staff from my office as well as the Office of Management and Budget to implement changes to their program.

The enclosure includes the recommendations contained in the auditor's proposed final management letter and our responses. If you require additional information or have any further questions, please contact Kevin Desmond, General Manager, Metro Transit Division, at 206-684-1619.

Sincerely,

Ron Sims

King County Executive

Enclosure

cc: Kurt Triplett, Chief of Staff, Office of the King County Executive
Bob Cowan, Director, Office of Management and Budget (OMB)
Sid Bender, CIP & Technology Supervisor, OMB
Dave Lawson, Manager, Executive Audit Services
Harold Taniguchi, Director, Department of Transportation (DOT)
Kevin Desmond, General Manager, Transit Division, DOT
Jill Krecklow, Finance and Administrative Services Manager, Transit Division, DOT



ATTACHMENT (Continued)

Recommendation	Agency Position	Schedule for Implementation	Comments
<p>#1 – Transit should identify new timelines for implementing:</p> <ul style="list-style-type: none"> - A comprehensive asset management guidebook that satisfies both state and federal mandates - Capital planning performance measures 	Concur	<p>A comprehensive asset management guidebook will be completed by 7/1/07 and will be used for the 2007 submission to the State of Washington's asset management process.</p> <p>Transit is participating in the capital project performance reporting effort led by the King County Office of Management & Budget and Executive's Performance Measurement staff. The current plan is to implement quarterly, capital project milestone reporting in 2007 and to develop additional capital project performance metrics for implementation in 2008.</p>	
<p>#2 – Transit should finish implementing previous audit recommendations for improving its business plan by:</p> <ul style="list-style-type: none"> - Modifying Goal 2 to focus on an outcome, rather than a process. - Developing performance measures to track and report progress in meeting Goals 2 and 3. 	Concur	<p>Transit's Mission and Goals are annually reviewed by the Regional Transit Committee and adopted by the King County Council. Transit will be submitting 2007 goals and objectives for review by March 1, 2007. As part of that process, Transit will propose a modification to Goal 2 to address the concerns raised by the auditors. Depending on council action, Goal 2 may be revised.</p> <p>Transit continues to develop performance measures for Goals 2 and 3 and will provide information on new, proposed measures in the 2008 Business Plan which will be submitted to the Office of Management and Budget in early July, 2007.</p>	
<p>#3 – Transit should redesign the peer review report in consultation with the county Performance Management Director to provide meaningful information about how its performance compares to its peers.</p>	Concur	<p>Transit is continually looking for ways to provide meaningful information to compare its performance to our peers. Providing a meaningful comparison is challenging as outlined by the auditors in the initial audit report and again in this follow-up.</p> <p>The 2007 Peer Comparison report is scheduled for publication in the third quarter of 2007. This report will incorporate changes and recommendations developed in consultation with the County's Performance Management Director.</p>	